IN THE

Supreme Court of the United States

OCTOBER TERM, 1946.

Nos. 70, 71

EDWARD KATZINGER COMPANY,
Petitioner,

vs.

CHICAGO METALLIC MANUFACTURING COMPANY,
Respondent.

REPLY TO BRIEF OF AMICUS CURIAE.

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INDEX.

PAGE

I. The Department of Justice Contends That There Is No Consideration for a License Grant Under an Invalid Patent 1

II. The Department of Justice Argues That No Implied Estoppel Should Be Raised to Prevent a Licensee From Disputing the Validity of a Patent Under Which He Is Licensed 3

III. The Department of Justice Argues That in the Katzinger Case the Expressed Estoppel to Deny Validity Is Contrary to Public Policy Because Unconscionable 4

IV. The Department of Justice Brief Also Assumes That the Jackson Patent Is Invalid and That We Concede Its Invalidity 6

Cases Cited.

Farmers Natl. Bank v. Rosenkrans, 240 Ill. App. 230 .. 2

Pope v. Gormully, 144 U. S. 224 ..... 4, 5

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The brief of the Department of Justice filed Amicus Curiae without the consent of the parties and at a very late date raises a number of questions which were not before the lower courts and are not presented by the points of appeal.

I.

The Department of Justice Contends That There Is No Consideration for a License Grant Under an Invalid Patent.

This contention is wholly specious. The forbearance to bring suit is a good consideration so long as the claim upon which suit is threatened is believed to be bona fide. See Restatement of the Law of Contracts, section 76-C.

Illinois law governs the adequacy of the consideration. Forbearance to sue is complete and adequate considera-

tion in Illinois even where the threatened suit is founded upon an allegedly invalid instrument. *Farmers Natl. Bank v. Rosenkrans,* 240 Ill. App. 230.

After arguing that there is no consideration for such a license, the Department of Justice naively concedes that forbearance is a consideration, but argues that forbearance exhausts itself as a consideration as soon as any part of the agreement is executed. If this were the law, then a man who gave an installment note in consideration of forbearance could refuse payment on all of the unpaid installments, whereas, if he gave a single note for the entire amount, there would be good consideration.

Inasmuch as the Department of Justice is contending for a matter of public policy, form does not make any difference. Since form is not important, it is advisable first to examine what can clearly be accomplished by a patentee, and then to see if he has done any more than that. The terms of payment in a license need have nothing to do with the patent. A patentee, like any other promisee, can exact as a royalty a definite sum of money paid at once, or a continuing sum of money to be paid at stated intervals. The amount of the periodical payment of money may be determined in any one of a number of ways. It may be measured by the number of licensed articles, but it might also be measured by unlicensed articles or even fortuitous events. There is nothing illegal or contrary to public policy in granting a license, for example, to a manufacturer of baking ware on the condition that he pay a royalty of 2¼% upon sales of all the baking ware, patented or not patented, which he makes in the future any more than it would be to grant a license for one million dollars, payable at the rate of one cent for each baking tin of any description made by the licensee.

It is unimportant to determine whether a patent is valid

or invalid in deciding whether the licensee is to pay royalties. The consideration for royalties is the forbearance to sue and so long as this forbearance was a good consideration at the time it was given, it does not matter that during the term of the royalty payments the patent may become valueless whether by expiration, surrender, or judicial interpretation.

Perhaps the Department of Justice is disturbed about patents because they mistakenly consider them to be wholly different from other property and in some way abhorrent. This is best illustrated by their continual reference to patents as a "Monopoly". Of course a patent is a species of monopoly, but so is every other form of property. No one attacks the rent charges which one may exact for a parking lot or an office building. A patent no more requires special treatment under the Anti-Trust Laws than does any other form of unique property.

II.

The Department of Justice Argues That No Implied Estoppel Should Be Raised to Prevent a Licensee From Disputing the Validity of a Patent Under Which He Is Licensed.

This point is not involved in the *Katzinger* case and we, therefore, do not propose to argue it, although it does not appear to us that the Department of Justice has made a case for departing from the long established line of authorities.

In the *Katzinger* case the estoppel is by contract based upon good consideration and there is no need to consider whether a corresponding estoppel would or could have been raised by implication.

III.

The Department of Justice Argues That in the Katzinger Case the Expressed Estoppel to Deny Validity Is Contrary to Public Policy Because Unconscionable.

We do not follow this argument. It seems partly to be based on the theory that there is no consideration, which we have already demonstrated to be completely erroneous.

It is partially based on the case of *Pope* v. *Gormully*, 144 U. S. 224, but that case does not support the proposition either by its finding or by its dictum. In the *Pope* case some sixty-five patents were covered by the contract. Fifteen of these were licensed and the rest were not licensed, but as to all, the licensee was estopped to deny validity and title. In addition, licensee agreed not to use twenty features of construction. The Court did not find even the obviously restrictive contract before it to be invalid and did find that a prohibition as to a single patent might be valid. It said that under the circumstances of the extreme contract before it, it would not grant specific performance. The Court expressly refrained from passing upon what would have been its action in a suit at law.

The most that could possibly be said for the *Pope* case as applied to the Katzinger situation would be that the court might decide not to grant an injunction against Chicago Metallic, but would simply grant Katzinger damages. So far as that goes, the history of the case shows that Katzinger was not primarily interested in an injunction but in receiving the royalties promised to it.

Katzinger originally brought suit for royalties against Chicago Metallic, whereupon Chicago Metallic attempted to terminate the license and brought suit for declaratory judgment. Katzinger originally contended that the license agreement had not been terminated and, therefore, that

Chicago Metallic was liable for royalties. This contention was upheld by the District Court, but was overruled by the Court of Appeals upon the appeal of Chicago Metallic, which was not satisfied to have the right to make the material, but wished to avoid the royalties. The issue before this court need be only one as to the royalties.

In so far as public policy is concerned, we should again look beyond mere matters of form and see what it was that the parties wanted to accomplish and whether this could have been legitimately accomplished in any way.

The record shows that Chicago Metallic, before the Jackson patent issued, deliberately copied a new structure of Katzinger as soon as it appeared on the market. As soon as the patent did issue, a notice of infringement was sent to Chicago Metallic. That company had sufficient respect for the patent that it did not choose to contest validity and preferred to take a license. It is quite clear from the language in *Pope* v. *Gormully*, 144 U. S. at 234 that Katzinger could have taken a consent decree on the Jackson patent in suit at that time, since the court said:

> "In an individual case, he may doubtless assent that a judgment be rendered against him, even without notice."

No one would challenge such a consent decree, even though a court might well refuse to support a price-fixing agreement in a license based upon a consent decree.

The Katzinger license does nothing more than could have been accomplished by a consent decree and, therefore, is no more against public policy than a consent decree.

If any preference is to be granted, that person who has refrained from litigation and accomplished his ends by contract should be favored. In this case Katzinger was ready and prepared at the time of the original license to sue and bring the suit to a conclusion; Metallic was not. Presumably, both parties are to be praised rather than

censured for having arrived at a contractual compromise at that time. Certainly Katzinger should not be damaged because it has followed a peaceful rather than a warlike course, since the ends accomplished are the same.

If any preference were given to a judicial as distinguished from a contractual settlement, then litigation will be promoted—an end which has heretofore unanimously been regarded as undesirable.

The Katzinger license does not accomplish a restraint of trade, nor would anything which this court might do concerning that license accomplish such restraint.

The Katzinger Company sought in the beginning to avoid litigation. The testimony shows beyond doubt that it granted a license only on the theory that this was to avoid all litigation in the future. This agreement of the parties has been flouted by Chicago Metallic. It seems to us that the stand taken by Katzinger is meritorious and in the best interests of public policy.

IV.

The Department of Justice Brief Also Assumes That the Jackson Patent Is Invalid and That We Concede Its Invalidity.

As we have pointed out in our main brief, the patent solved a long felt want and, on the record below, the validity of the patent should have been sustained. The District Court stated no sufficient legal basis for holding it invalid and the Court of Appeals stated a completely erroneous basis for invalidity. We contend that the patent represents a step forward in a very crowded art and is entitled to the protection of the courts.

Respectfully submitted,

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